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**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF NEVADA**

In re:  
SOUTH EDGE, LLC,  
Debtor.

Chapter 11  
Case No. BK-10-32968

**THIRD CASE STATUS REPORT OF  
CYNTHIA NELSON, CHAPTER 11  
TRUSTEE**

**Hearing Date: August 31, 2011  
Hearing Time: 9:30 a.m.  
Courtroom: Courtroom #3  
Foley Federal Building  
300 Las Vegas Boulevard  
Las Vegas, Nevada 89101**

**TO THE HONORABLE BRUCE A. MARKELL, UNITED STATES BANKRUPTCY  
JUDGE:**

Cynthia Nelson, the chapter 11 trustee (the "Trustee") of the chapter 11 bankruptcy estate (the "Estate") of South Edge, LLC (the "Debtor" or "South Edge"), hereby files this status report in accordance with representations made to the Court by the Trustee at hearings that took place before it on April 20, 2011, and so as to keep the Court, and all parties in interest in this chapter 11 case (the "Case"), apprised of the Trustee's activities and developments in the Case.

**Joint Plan and Disclosure Statement of the Agent and Certain Builders.** Pursuant to the prior reported global settlement among (i) JPMorgan Chase Bank, N.A. ("JPMorgan" or "Agent"), as Agent under South Edge's prepetition credit agreement (the "Credit Agreement"),

1 and lenders that represent more than 92% in dollar amount and 94% in number of total lenders  
2 under the Credit Agreement (the “Consenting Lenders”), and (ii) each of KB Home Nevada, Inc.,  
3 Coleman-Toll Limited Partnership, Pardee Homes of Nevada, and Beazer Homes Holdings  
4 Corp., each of which is an equity member (a “Member”) of South Edge, and the respective  
5 parent guarantors of each such Member (collectively, the “Settling Builders”; and together with  
6 JPM and the Consenting Lenders, the “Settlement Parties”), on August 1, 2011, the Settling  
7 Builders and the Agent filed with the Court their proposed joint plan of reorganization [Docket  
8 No. 844] (the “Plan”) and the disclosure statement [Docket No. 843] (“Disclosure Statement”) in  
9 support thereof. A hearing on the Disclosure Statement is set to take place at 9:30 a.m., on  
10 September 7, 2011. Objections to the Disclosure Statement are due on August 29, 2011.

11 **Motion for Order Granting Focus South Group, LLC Standing to Prosecute Actions**  
12 **on Behalf of the Trustee and the Debtor’s Estate [DN 861] (“Derivative Standing Motion”).**

13 On August 3, 2011, Focus South Group, LLC (“Focus”) filed the Derivative Standing Motion.  
14 By the Derivative Standing Motion, Focus asks that the Court grant it standing to prosecute  
15 Estate causes of action against the other Members of the Debtor, including the Settling Builders.  
16 On August 17, the Trustee, the Agent and the Settling Builders each filed oppositions, and on  
17 August 24, 2011, Focus filed its reply to those oppositions. This matter is on the agenda for the  
18 August 31, 2011, 9:30 a.m. hearing (the “Upcoming Hearing”).

19 **Focus MI Litigation.** The following are the latest developments in the Trustee’s  
20 litigation to recover for the benefit of the Estate, among other things, the remaining balance in an  
21 account in the name of Focus (the “Account”) of a mandatory capital contribution by Focus to  
22 the Debtor in 2007 of over \$30.9 million (the “Focus MI Deposit”), which the Trustee believes  
23 constitutes an asset of the Estate (Adv. Pro. No. 11-01141-bam) (the “Focus MI Litigation”).

24 **Scheduling Conference.** A Scheduling Conference in the Focus MI Litigation is  
25 on the agenda for the Upcoming Hearing.

26 **Motion for Initial Determination Under 28 U.S.C. § 157(b)(3) that the**  
27 **Focus/JPMorgan Crossclaims are Non-Core [Docket No. 29].** On July 25, 2011,  
28 Focus and its affiliate, Holdings Manager, LLC, the former General Manager of the

1 Debtor, each of which is a defendant in the Focus MI Litigation, jointly moved the Court  
2 for a determination that crossclaims in the Focus MI Litigation between JPMorgan and  
3 Focus constitute non-core matters under 28 U.S.C. § 157(b)(3). On August 17, 2011,  
4 each of the Trustee and JPM responded to the motion and on August 24, 2011, Focus  
5 filed its reply brief. The motion is on the agenda for the Upcoming Hearing.

6 **Trustee's Motion for Summary Judgment.** On August 11, 2011, the Trustee  
7 moved the Court for partial summary judgment against Focus in the Focus MI Litigation  
8 on the Trustee's claim of ownership of the approximately \$26 million in funds remaining  
9 in the Account. The hearing on that motion is set for September 28, 2011 at 9:30 am. No  
10 response has been filed as yet.

11 **JPMorgan's Motion for Summary Adjudication of Crossclaim for**  
12 **Declaratory Relief.** On August 18, 2011, JPMorgan filed its own summary adjudication  
13 motion on its crossclaim for declaratory judgment confirming that it is entitled to use the  
14 entire balance of the Focus MI Deposit and for a dismissal of Focus's declaratory relief  
15 crossclaim that JPMorgan cannot use the Focus MI Deposit. The hearing on that motion  
16 is set for October 6, 2011 at 10:30 am. No responses have been filed as yet.

17 **TIP Financing.** The senior secured postpetition financing facility (the "**TIP Financing**") was  
18 approved on an interim basis on July 20, 2011 and on a final basis on August 12, 2011. The interim  
19 funding amount of \$3,430,000 was immediately utilized to replenish the advance from the Focus MI  
20 account utilized to pay LID assessments prior to the assessments becoming delinquent and to bring  
21 current past due property taxes (along with payment for some other minor administrative costs of the  
22 Estate). In conjunction with the TIP Financing, the Trustee provided to the Builder Lenders and the  
23 Agent certain reports to comply with the financial reporting covenants of the facility.

24 **Ongoing LID Work.** Work has been completed with respect to LID T-18 segments SM-1B,  
25 and all required documentation has been submitted to the Assessment Engineer for submittal to the  
26 City for reimbursement (in the gross amount of approximately \$802,000). The Trustee expects the  
27 City will be considering the payment request at its September 6, 2011 Council meeting. Construction  
28 work on a number of additional segments has been completed and the inspections necessary for

1 turnover to the City are in process.

2 **Non-LID Construction Work.** The Trustee continues to advance construction efforts in the  
3 resolution of public health and safety issues. This work includes securing various aspects of the  
4 water system servicing the existing residents of Village 1 as well as addressing access issues related  
5 to certain other infrastructure. The Trustee has also completed repair work on Bicentennial Parkway  
6 and has initiated construction work on Volunteer Road to bring this roadway to its final completed  
7 condition which, in the process, will resolve existing storm water drainage issues.

8 **Document Recovery.** The Trustee continues to make demands on Focus<sup>1</sup> and others for the  
9 turnover of books and records relating to the Debtor that the Trustee believes constitute Estate  
10 property. The Trustee reserves the right to bring litigation to compel the turnover of any such books,  
11 records and documents that have not been delivered to the Trustee.

12 **Claims Objections.** On July 29, the Trustee objected to Claim Nos. 7 and 10,  
13 duplicative claims belonging to Merchants Bonding Company and C&S Company, Inc.  
14 (collectively, "Claimants"), respectively. The Trustee's basis for the objections is her contention  
15 that Claimants previously had stipulated with the trustee not to exercise their rights to file claims,  
16 and the claims thus are unenforceable. Claimants filed opposition to the claims objections on  
17 August 19, 2011, and the Trustee filed her reply to the opposition on August 26, 2011. The  
18 Court will hear the claims objections at the Upcoming Hearing.

19 **Trustee's Professional Fees.** On August 22, 2011, each of the Trustee's professionals,  
20 in accordance with interim compensation procedures approved by this Court by order entered  
21 July 25, 2011 [Docket No. 822], filed with the Court and served interim monthly fee statements  
22 for each of the months of February through July, 2011. If objections to these fee statements are  
23 not timely filed, the Trustee's professionals will submit appropriate certifications of counsel and  
24 thereafter will be entitled to payment, on an interim basis, of 85% of their requested fees and  
25 100% of their requested expenses. By no later than August 31, 2011, the Trustee's professionals  
26 also intend to file with the Court their first interim fee applications for the period covering

27 \_\_\_\_\_  
28 <sup>1</sup> The Trustee has asserted a cause of action against Focus for the turnover of such books and records in  
the Focus MI Litigation.

1 February through June 2011. Hearings on the applications will be set for September 28, 2011, at  
2 9:30 a.m. If approved, the professionals will be entitled to recover the 15% held back from  
3 payment on the monthly statements for February through June

4 Dated this 30th day of August, 2011.

5 By:           /Jeanette E. McPherson  
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